AN ECONOMIC SURVEY OF THE MASSACHUSETTS FILM & VIDEO PRODUCTION INDUSTRY

1990 AND 1991

Prepared for

The Massachusetts Film Office

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by

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Contents

Summary

In the three years since the Massachusetts Film Office's last economic impact study, film and video production expenditures in the state have grown by 8%, with a concomitant increase in overall economic impact. However, the recession gripping Massachusetts and the New England region during that period has influenced both the total dollars available to producers as well as the distribution of those dollars among the various production categories.

Despite the weak economy, Massachusetts continued to attract a steady flow of feature film and television production work. Activity on the corporate and commercial side of the industry, however, has slowed, as clients reduced or deferred advertising, video training and other communications projects. The impact has been strongest among in-house corporate production departments, where a number of facilities have been scaled down or totally eliminated in favor of services purchased from outside vendors.

Highlights of this report include:

- Direct expenditures by clients for film and video production work in Massachusetts grew 8%, from $193 million in 1988 to $209 million in 1991, generating an overall economic impact of $335 million.
- Massachusetts has sustained its position as a preferred production location for feature films and television specials and series. In the years covered by this report, over 40 entertainment productions, including *Housesitter, School Ties*, and *Mermaids*, filmed on location in the state. Entertainment production work showed significant gains over previous years, rising 27% to $21.6 million in 1990 and surging 53% to $33 million in 1991.
- Location projects by out-of-state producers contributed $9 million or 4% of total spending in 1990. Location spending more than doubled in 1991 to a measured high of $21 million, accounting for 10% of total spending.
- As demand from in-state customers slowed, business from out-of-state customers played a larger role in the local industry's revenue structure. Now, nearly half of all expenditures come from outside the state.
- Corporate and institutional production is the largest industry segment, totalling $113.5 million in 1990 but declining 23% to $87.5 million in 1991.
- Massachusetts-based producers reported $193 million in revenues for 1990, and $180 million in 1991 representing a 9% decrease from 1988 revenues of $197 million.
- The recession's impact on employment was strongest in 1990, with a 29% decline in full- and part-time jobs. An additional 4% loss in 1991 left 2,700 positions, filled largely by experienced full-time professionals.

Introduction

Every two years since 1980, the Massachusetts Film Office (MFO) has commissioned a survey of the state's film and video production industry. Cost containment needs in 1990 dictated a one-year deferral of the study. Consequently, this report covers the years 1990 and 1991. To illustrate trends, BCG has, on occasion, interpolated 1989 data by applying the compound annual growth rate from 1985 through 1988 to 1989 data points.

Given the economic climate, Butterfield Communications Group entered this project expecting to see a drop in production spending compared to 1988. Surprisingly, overall production spending for 1990 and 1991 was slightly higher than in 1988 -- although since 1989 there is a downward trend and the distribution of dollars among the various production segments has changed.

In the wake of a national recession, several significant trends have emerged:

- Corporate and institutional clients have cut back production spending.
- A major shift by the corporate/institutional sector from in-house production operations to use of outside vendors funneled more dollars to the independent production community.
- Ad agencies and their clients have decreased commercial spending.
- Production companies are increasingly broadening their core client base to include markets outside the state.
- Tighter production budgets and intense competition forced long-time players like VizWiz and Video One into bankruptcy only to have new players like National and Quantic emerge.
- Advances in low-cost video technology have created a cottage industry which serves less technical markets such as domestic video and legal depositions.

Massachusetts remains one of the top production states in the nation. However, the weakness of the local economy combined with the emergence of strong production industries in other markets, threatens to drain Massachusetts' base of production professionals. Several union freelance professionals commented on the departure of large numbers of their coworkers to other markets, expressing concern for potential "brain drain" in the state's production community.

Methodology

The objective of this study was to measure the total dollars flowing through the state's film and video production industry. These dollars are composed of Massachusetts-based production company and independent producer revenues, location expenditures made by out-of-state producers, and in-house production work by private companies and institutions. As in past studies, they do not include production work conducted on premises by local television stations and cable companies.

This is the most extensive survey to date of the state's production industry. A larger number of organizations were involved and their participation was vital to the success of this project:

The Boston Film and Video Foundation
New England Point of View Magazine
The New England Producers Association
The ITVA
Women in Film and Video
The Film and Video Labor Coalition of Massachusetts

With the assistance of the Massachusetts Film Office and its staff, mailing lists from each of these groups were combined with Yellow Pages listings throughout the state and MFO records to develop a sample frame. Close to 3,000 surveys were mailed to producers, freelance professionals, and corporate in-house facilities. Letters returned as "undeliverable" were deleted from the sample frame. Random follow up telephone calls were made to spur survey participation and identify invalid listings.

Survey Group Response Rates

	Total	In-Tab	Rate
Massachusetts Producers	466	62	13%
Corporate In-house Depts.	66	25	38%
Freelance Professionals	1,200	82	7%

As in previous studies, the survey only attempted to reach individuals and companies presently residing in Massachusetts. It did not attempt to collect data for companies that ceased operations, individuals that moved out of state or departments that were disbanded prior to February, 1992.

The Massachusetts Film Office and Butterfield Communications Group would like to thank the members of the Massachusetts production industry who understand the importance of this report and took the time to complete and return surveys.

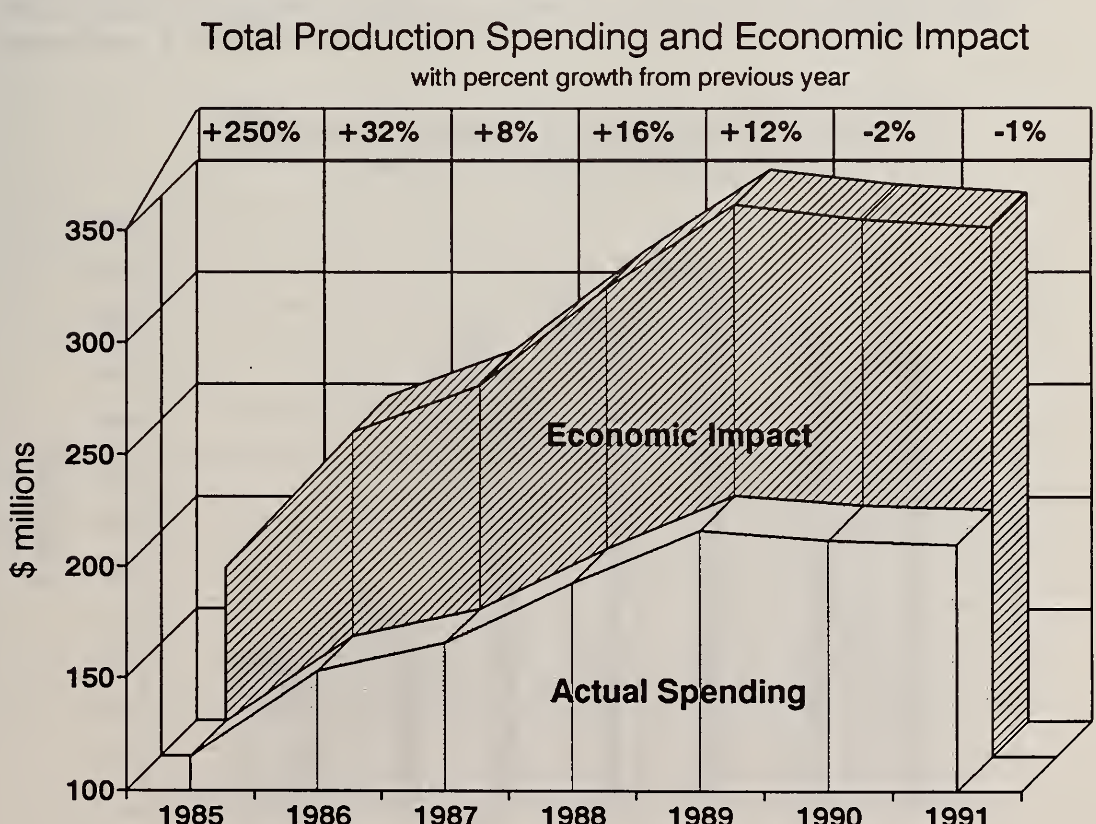
The Marketplace

Total Direct Production Expenditures

After years of strong growth during the 1980s, total film and video production spending in Massachusetts since 1989 has been in a moderate decline. BCG estimates that production spending peaked in 1989 at $216 million, dropped 2% to $212 million in 1990 and further dropped to $209 million in 1991.

BCG estimates economic impact of these production industry revenues to have been $339 million in 1990 and $335 million in 1991.

The economic impact of dollars spent in Massachusetts exceeds the actual dollars themselves. As money passes from one hand to another, the impact of these funds increases. A multiplier is used to estimate the overall economic impact of this monetary turnover. As in prior studies, BCG has chosen to use a conservative revenue multiplier of 1.6.



Sources of Production Spending

Production expenditures in Massachusetts are measured at three sources:

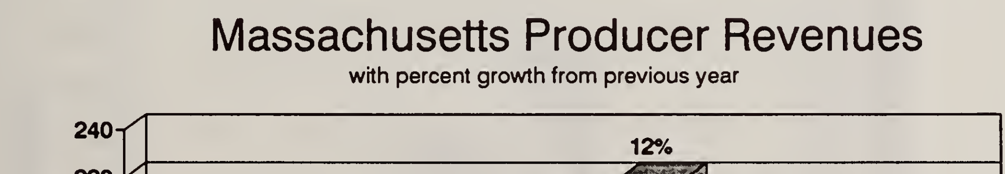
1. Revenues reported by Massachusetts-based producers and production companies;

2. Location expenditures by non-Massachusetts producers;

3. In-house production work by Massachusetts-based companies and institutions.

Massachusetts Producers

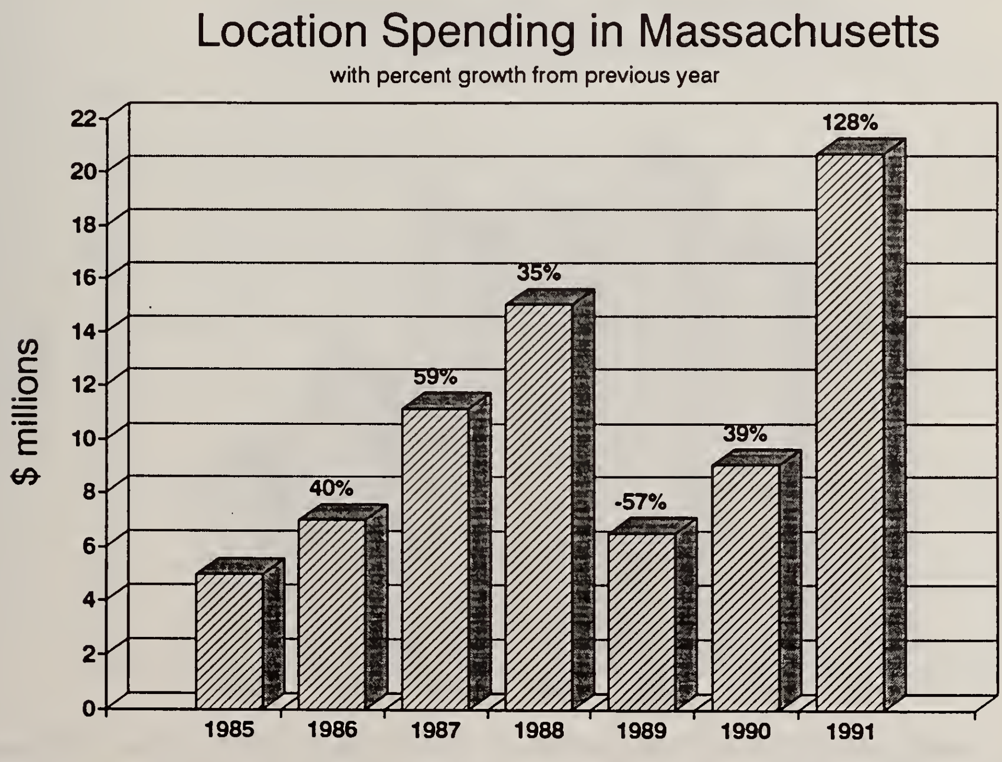
Massachusetts-based producers contribute the most to in-state production spending. Their revenues, derived from a host of local, national, and international clients, form the industry's revenue base. Although local producers may spend a portion of those revenues outside the state (ie. on location) most are spent in-state. The 466 producers and production companies identified contributed about 90% of in-state production expenditures in both 1990 and 1991.



Location Spending

Location work by out-of-state producers is tracked by the Film Office. Most of the location work conducted in Massachusetts is for feature films and television series initiated in California and New York. Location projects add dollars to the state economy through the employment of local actors and production crew and the use of services such as equipment rental, hotels, transportation and catering. A portion of these location expenditures is often funneled to Massachusetts producers and production facilities.

Massachusetts has been unusually successful in attracting television series to the state for location work. Other than California and New York, both of which are home to national production centers, only a handful of states have provided settings for as many series as has the Bay State.

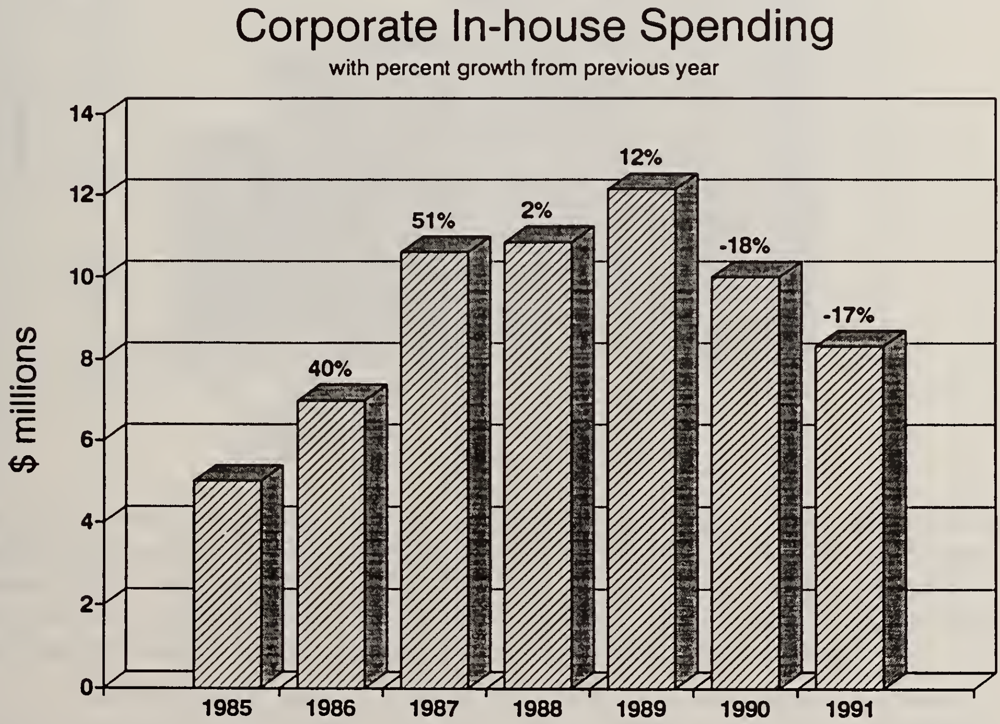


In 1990, location production work recorded by the MFO contributed $9 million or 4% of total spending. Location spending more than doubled in 1991 to a measured high of $21 million, accounting for 10% of total spending.

Corporate In-House Spending

Corporate and institutional in-house production departments contributed $10 million or 5% to total spending in 1990. In 1991, however, in-house spending dropped nearly 20% to just over $8 million, representing 4% of total spending.

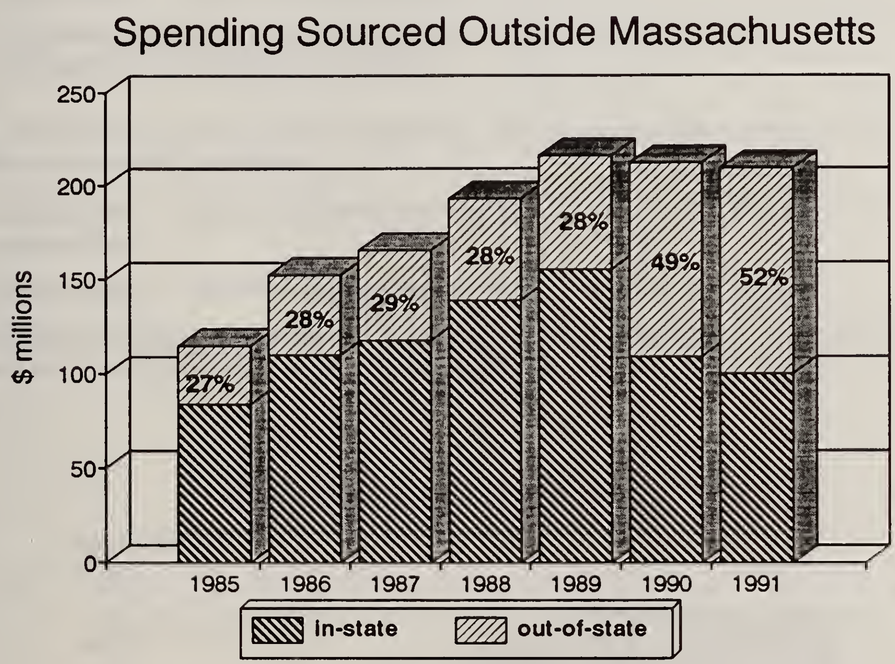
Corporate and institutional in-house producers operate solely for their parent organizations to apply video in the areas of training, marketing, and communications. During the 1980s, a number of large companies created in-house departments to contain costs and maintain control over projects. In the latter '80s, some companies opted to close down their capital-intensive facilities, in favor of using outside production houses where slowing business was stimulating very competitive pricing.



Since 1988, several of the largest in-house producers identified in previous surveys -- such as Digital Equipment Corporation, Wang, Blue Cross Blue Shield, and Purity Supreme -- have completely abandoned their in-house departments in favor of using outside vendors.

In-State Vs. Out-of-State Sources

Over the past two years, production spending was sourced almost equally from in-state and out-of-state clients. Spending from clients located outside Massachusetts accounted for approximately 49% of total spending in 1990 and 52% in 1991. This is a marked increase from previous reports in which out-of-state dollars made up less than one-third of all expenditures.



The shift in share reflects very different growth rates in the two sources of production company business during 1990 and 1991. From 1985 to 1989, both revenue streams grew at similar rates: sales to in-state customers grew at 16.7% and sales to out-of-state customers grew at 18.1%. The result was that revenues from in-state customers accounted for about 28% of total revenues throughout the 5-year period.

Over the next two years, however, revenue growth from in-state customers turned negative, declining at a compound annual rate of 19.8% through 1991. As might be expected, production companies turned their marketing efforts to more economically healthy regions, and sales to out-of-state companies grew by an average of 34.6% across the two years.

Two conclusions are suggested by this data. First, Massachusetts production companies have demonstrated their ability to successfully compete for business beyond the state's borders. Second, when the New England economic climate has improved, and film and video project budgets are restored to pre-recession levels, the production industry is likely to show a growth pattern similar to that of the mid-80s.

Spending By Production Category

This report categorizes production spending in the following four major genres:

Entertainment -- feature films, made-for-TV movies, television series and pilots;

TV News and Documentaries -- educational and informational productions (excludes regular local newscasts);

Commercials -- product advertising and promotion;

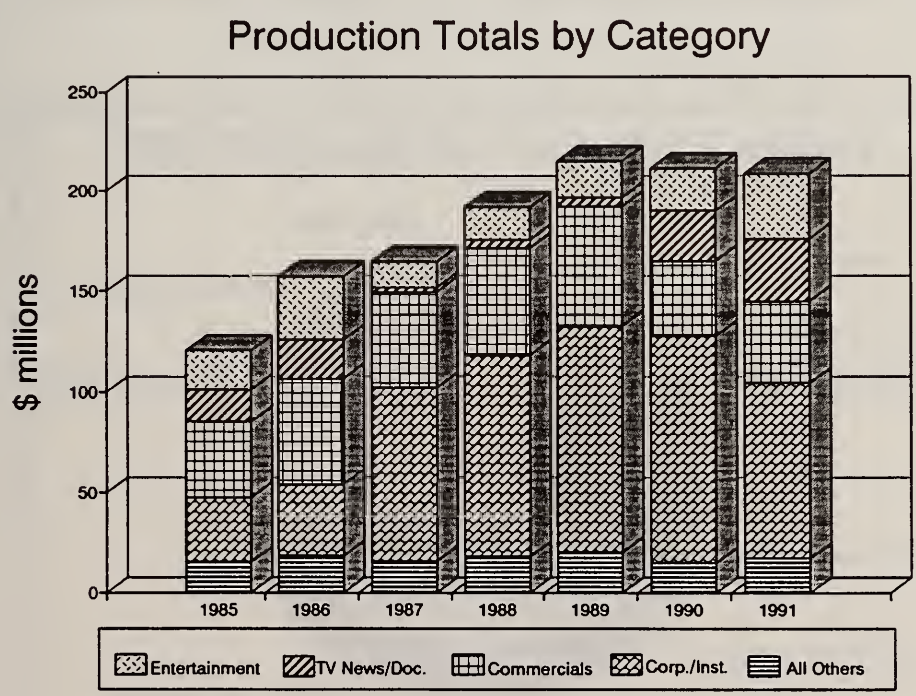
Corporate and Institutional Productions -- productions for private distribution by the corporate or institutional client.

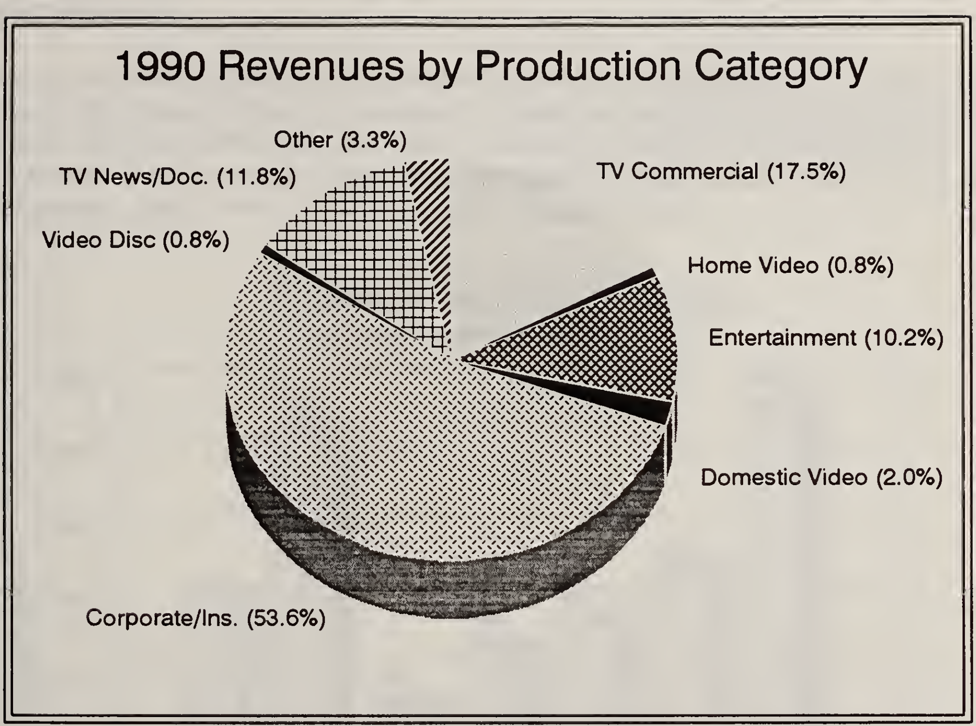
In addition to the five primary categories, spending was also estimated for the following smaller categories:

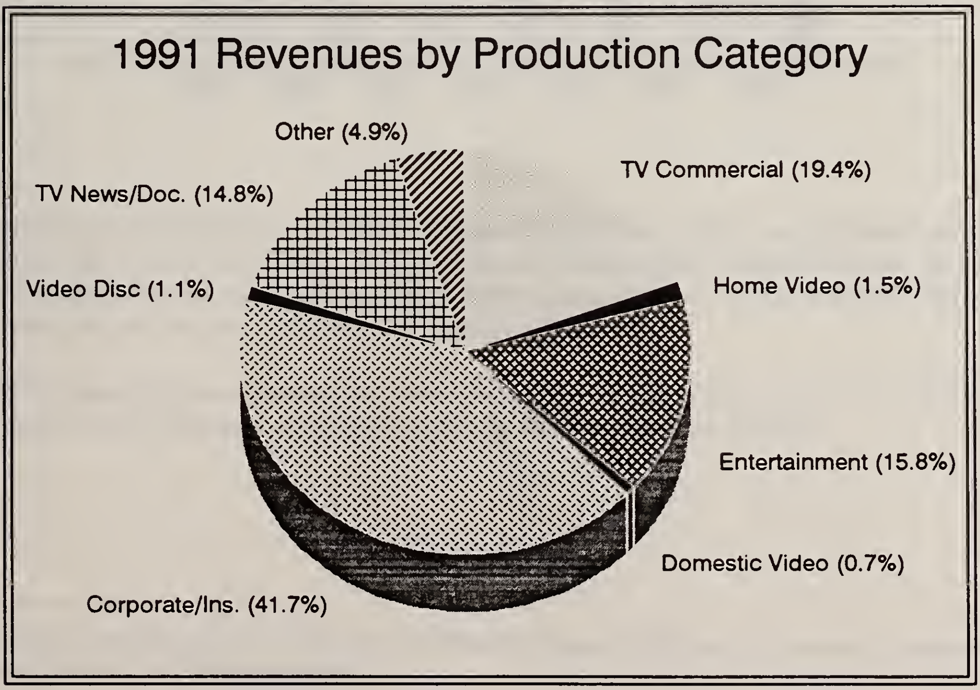
Video Disc -- highly specialized forms of educational or entertainment productions;

Home Video -- productions distributed through retail video outlets;

Domestic Video -- includes the taping of weddings, birthdays, bar mitzvahs and other non-commercial events. This is the first year for this category.

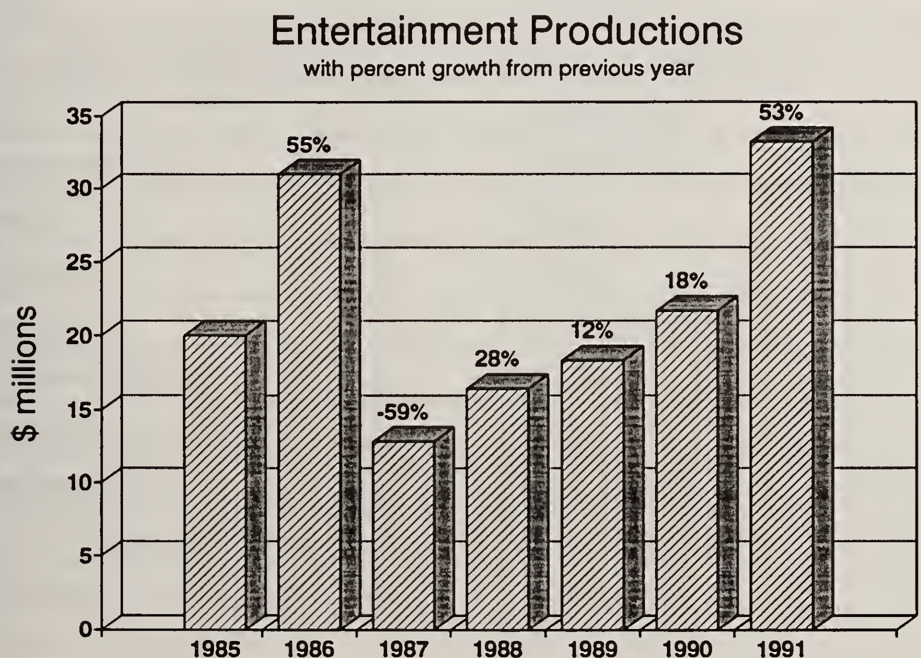



1990 Revenues by Production Category
Other (3.3%)
TV News/Doc. (11.8%)
TV Commercial (17.5%)
Video Disc (0.8%)
Home Video (0.8%)
Entertainment (10.2%)
Domestic Video (2.0%)
Corporate/Ins. (53.6%)


1991 Revenues by Production Category
Other (4.9%)
TV Commercial (19.4%)
TV News/Doc. (14.8%)
Video Disc (1.1%)
Home Video (1.5%)
Entertainment (15.8%)
Domestic Video (0.7%)
Corporate/Ins. (41.7%)

Entertainment

Feature film and television entertainment production in Massachusetts remains primarily the domain of outside companies which use Massachusetts for location work. Between 1990 and 1991, the Film Office continued to attract a steady stream of feature and television work to the state. *Mermaids*[1], *Housesitter*, and *School Ties*, in combination, spent more than $22 million in Massachusetts.



Entertainment production work showed significant gains in 1990 over previous years, reaching $21.6 million in 1990. This growth was driven by an unusual number of series pilots, ongoing series and local events of national scope. New series included *Against the Law* plus the series pilot *Maverick Square,* among others.

In 1991, Entertainment production spending surged to $33 million with the addition of two major studio projects and numerous television production projects.

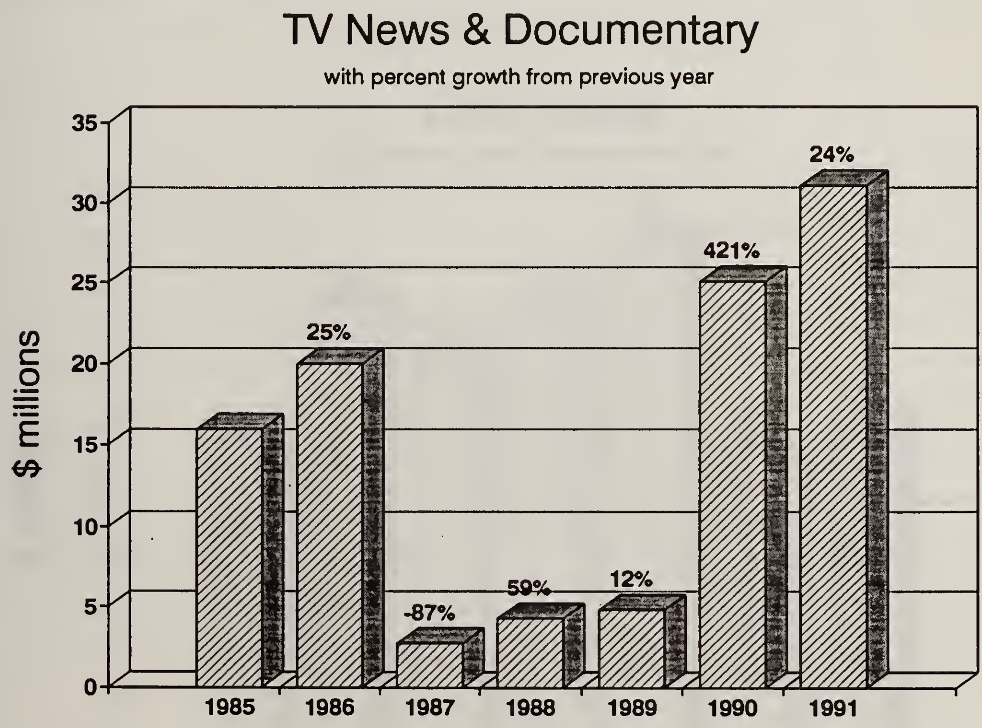
[1]Because Mermaids principal filming was completed in January, 1990, most of the project's expenditures were attributed to the 1989 calendar year.

Partial Listing of Entertainment Productions

1990	1991
Mermaids	*Housesitter*
Once Around	*School Ties*
Home	*I Can't Lose*
Sex, Drugs and Rock 'n Roll	*Young Goodman Brown*
Run	*Primary Motive*
Against the Law	*Against the Law*
Wings	*Wings*
Cheers	*Cheers*
Rescue 911	*Lethal Innocence*
Unsolved Mysteries	*The Secret*
NBC Today Show	*Cops*
Maverick Square	*Local Legends*
First Love, Second Chance	*In the Shadow of Love*
America's Funniest People	*True Detective*
Heart's & Minds Video	*Candid Camera*
New Kid's Video	*America's Most Wanted*
Rules of Attraction	*Rescue 911*
	Unsolved Mysteries
	The Last Ferry Home
	Comic Strip Live
	Tornado Lane
	Marky Mark Music Video
	Michael Crawford Music Video

Television News and Documentary Production

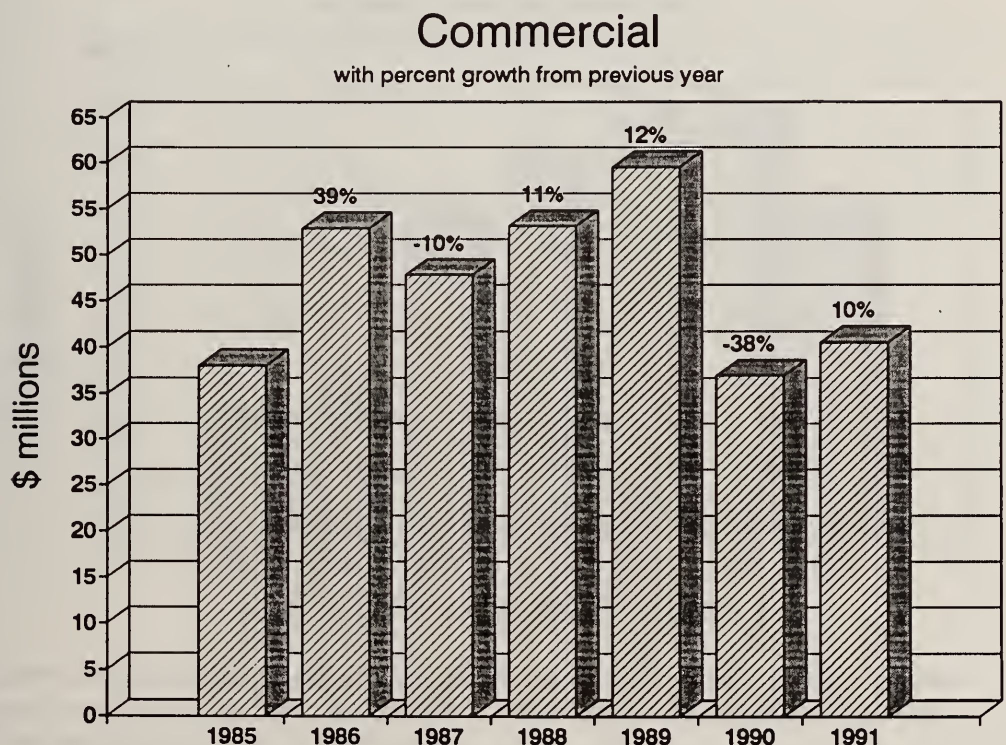
Television News and Documentary Production work totaled $25 million in 1990 and $31 million in 1991. Virtually all of the work was conducted by local producers. The rise in news, informational, and reality-based programming is primarily responsible for driving the market.



The 1988 study reported unusually low expenditures for Documentary production in 1987 and 1988. BCG speculates that this may have resulted from a poor representation of Documentary producers in the survey sample. The present survey results are consistent with activity earlier in the decade.

Television Commercial Production

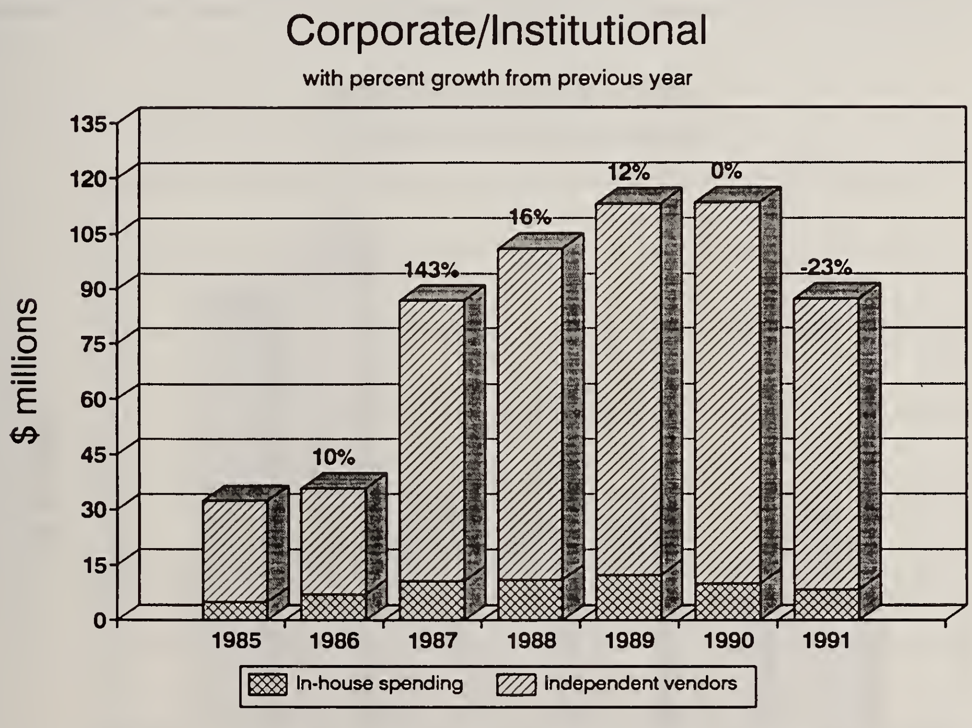
Television Commercial Production has always played an important role in the state's production industry, consistently ranking as the second largest source of income for local production companies after corporate production work. Local producers reported $36.5 million in revenues from Commercial production work in 1990 with out-of-state sources adding another $500,000 in location work. In 1991, Commercial production expenditures registered a 10% gain, rising to $40.6 million.



The overall decline in commercial production spending reflects a recessionary decrease in advertising and promotion budgets. BCG estimates 1991 regional advertising expenditures at 25% below 1989 levels, largely due to cut-backs in the weakened automotive, banking, and retail sectors.

Corporate and Institutional Production

Corporate and Institutional production remains the lifeblood of the local production industry. In 1990, local production companies earned $103 million in revenue from corporate production projects. Corporate in-house facilities generated an additional $10 million. The total of $113 million represents a slight increase over the $108 million reported in 1988.

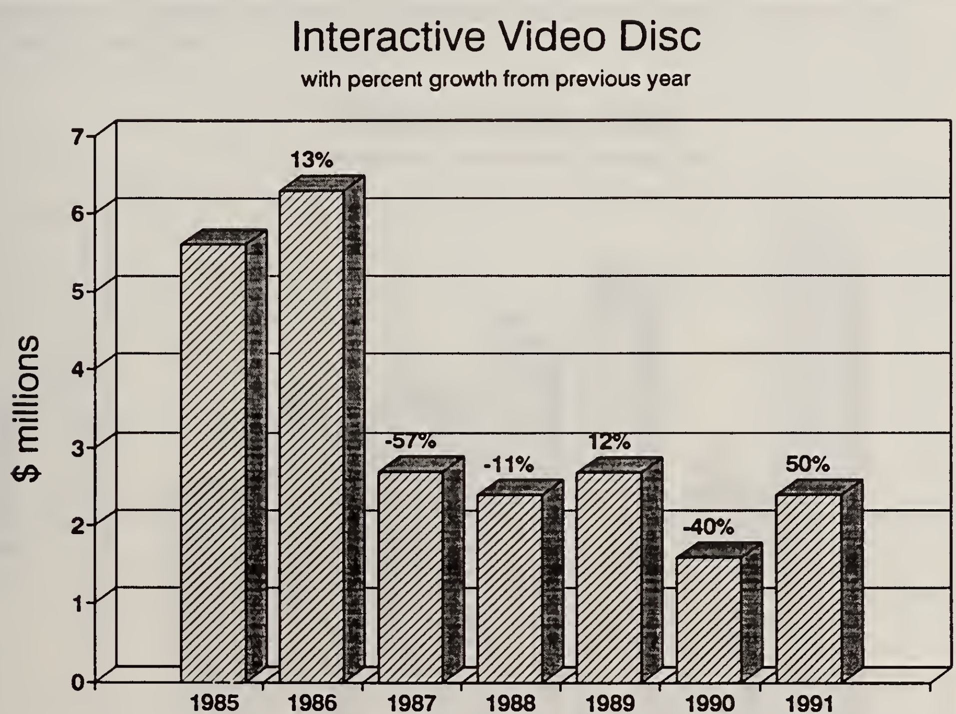


In 1991, however, Corporate production revenues tumbled 23% to $87.5 million. Local production companies earned $79.2 million from corporate projects while in-house spending dropped to $8.3 million.

This loss can be traced to the current recession which has hit Massachusetts' high tech and financial communities particularly hard. Many companies which had spent the better part of the 1980s building in-house production departments eliminated them altogether in cost cutting efforts. Other companies, such as Bank of New England, disappeared completely and most companies, it seems, have turned a more critical eye toward the cost of video production and have severely curtailed spending.

Interactive Videodisc Production

Videodisc production remains a small and highly specialized segment of the production industry, accounting for just $1.6 million in 1990 and $2.4 million in 1991. Though most videodisc production work can be categorized as either educational or entertainment, the non-linear format is complex, time consuming and costly to prepare. With the slower-than-expected penetration of videodisc in corporate and institutional environments for training and education, this type of production work will continue to grow slowly -- until more cost effective implementations are discovered.



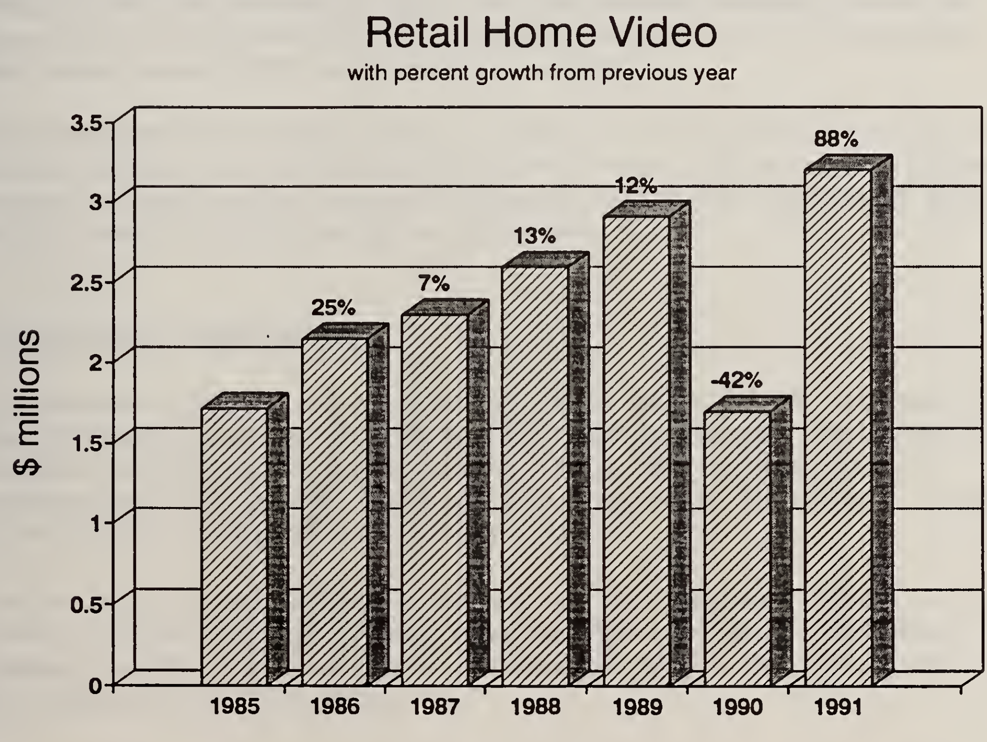
The apparent decline in videodisc production activity may be somewhat illusory. The surge of activity in videodisc production noted in earlier reports reflected the production community's early interest in a new medium that combined video and computer technologies. Massachusetts, with its strong computer industry and growing production community, provided a particularly good breeding ground.

The more recent decline in reported production for videodisc may indicate the migration of this work to firms specializing in interactive video applications in training and marketing. These firms do not define or market themselves as film or video production companies and some will not have been included in the survey sample.

Retail Home Video Production

Home video production continues to languish as a source of revenue for production companies, which reported a mere $1.7 million in 1990 and $3.2 million in 1991. These figures are almost unchanged from the previous survey.

The seemingly ravenous hunger of the public for home video product in the mid-1980s has apparently been sated. Retail distribution has become primarily a secondary market for features and cult television programs and the occasional "how-to" program. The tremendous catalog of backtitles available to stores places a premium on shelf space while a shrinking number of distributors wield ever greater control over distribution channels.



Domestic Video Production

Domestic Video Production is a category entirely new to this survey. Revenues attributable to domestic production reached $4.2 million in 1990 but dropped to $1.4 million in 1991.

The availability of high quality, low cost video equipment has opened a market for taping domestic events such as weddings and birthdays. Film and video professionals tend to look upon this market with disdain. However, several respondents reported supplementing their incomes with Domestic work and using it as a springboard into the corporate sector.

Employment

The employment outlook for Massachusetts film and video production professionals has changed dramatically since the late 1980s. The 1988 survey found that 3,100 individuals were employed either full- or part-time by Massachusetts-based producers and production companies. Another 400[2] were employed at corporate in-house production facilities while the freelance workforce was estimated to have numbered about 500. In total, the film and video production industry directly employed about 4,000 workers.

In 1991, Massachusetts producers employed only 1,750 people, a 44% decline from 1988. Corporate in-house departments (those that still existed) employed about 165. Many of those displaced workers moved into the freelance community, which has grown 70% to an estimated 850. The production workforce in 1991 is estimated to have totaled around 2,700, an overall decrease of 33%.

The production industry also indirectly contributes to the employment of many other workers through its use of ancillary and support services. Actors, caterers, lighting companies, transportation, costumers, equipment suppliers and many others derive varying levels of revenue from the production business.

Production Companies

Massachusetts producers and production companies are the primary employers within the production community. By 1990, they were already feeling the early effects of the recession and had reduced their workforces 41%[3] to 1,830 full- and part-time positions from 3,100 in 1988. As the recession deepened, so did staff cuts -- resulting in an additional 4% loss of jobs to 1,750 in 1991.

The loss of jobs can be attributed to the decline in local producers' main source of income -- Commercial and Corporate spending. Between 1988 and 1991, local producers' combined revenues from Commercial and Corporate projects dipped 29%, from $168 million to $120 million.

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[2] Corporate In-house employment estimates for 1988 are calculated by multiplying the average reported staff of 5.3 by an estimated universe of 75 in-house facilities.

[3] This drop occurred over the period of two years. No employment figures are available for 1989.

Corporate In-House Facilities

Production employment at corporate in-house departments has also fallen steeply from 1988 levels. Corporate cost containment efforts in conjunction with increased competition and lower prices among independent vendors have resulted in the elimination of several of the state's largest in-house facilities -- such as Digital Equipment Corporation and Wang -- and a shift toward use of independent vendors. Companies that have retained their in-house production facilities have reduced their staffs by over 50%.

In 1988, an estimated 400 production professionals were employed by about 75 corporate in-house facilities with a company average of 5.3 employees. By 1991, corporate in-house employment had dropped almost 60% to 165 employees at 66 facilities with a company average of 2.5 employees.

Freelance Professionals

The loss of jobs at production companies and corporate in-house departments has created of flood of new faces in the freelance community, which has grown 70% from 500 in 1988 to an estimated 850 in 1991. Due to increased competition, however, not all of those who lost their jobs remained in Massachusetts. Survey responses as well as conversations with representatives of the freelance community suggest a high level of emigration to other markets such as New York, Los Angeles, and Orlando.

Freelance Professionals

Freelance professionals are artists and technicians employed on a job, project, daily or hourly basis. They are, in many respects, the corps of the production industry. Their responsibilities can range from set design or cinematography to clerical and administrative tasks. Some freelance professionals, particularly those with advanced skills, specialize in individual production positions; others work at whatever positions become available.

The initial sample frame included roughly 1,200 entries for people thought to be freelance professionals. A process of telephone confirmation and analysis of letters returned as "undeliverable" resulted in the reduction of the estimated freelance "universe" to about 850. This is still an increase, however, from the 500 Massachusetts-based freelance professionals identified in 1988.

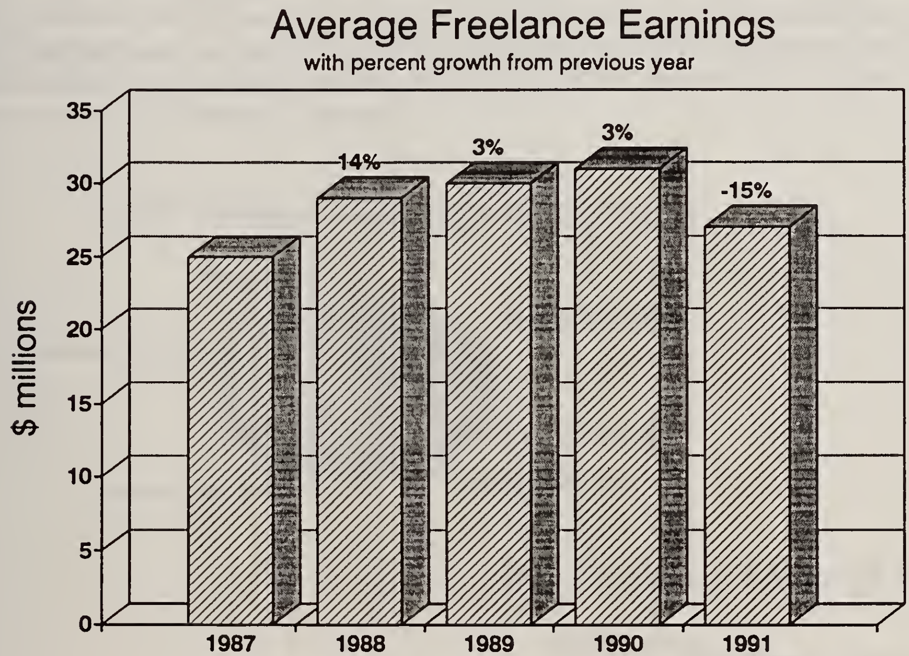
One explanation for the increase can be found in the migration to the freelance sector of former employees of down-sized or defunct production companies and corporate in-house production facilities. In addition, a number of Massachusetts' colleges and universities produce a fresh "crop" of young film grads annually, many of whom begin their careers by joining the Massachusetts freelance rolls.

The freelance population also tends to be highly transient. Even in the best of times the Massachusetts market can only support a limited number of freelance professionals on a full-time basis. Comments from survey respondents as well as conversations with union leadership indicate that recent economic conditions have probably spurred an exodus of freelance professionals to more lucrative markets while marginal participants have shifted to more traditional and stable careers.

The following pages detail the results of the 76 in-tab freelance responses. Where available, corresponding information provided by local unions is included.

Average Freelance Income

The survey respondents reported average 1990 earnings of $34,700. This represents a 19.7% increase over 1988 average earnings of $29,000 and may reflect the concentration of employment among a small core of experienced professionals. In 1991 average earnings fell 15% to just below $29,370[4]. This may suggest that in the face of very soft demand, downsizing the number of active freelance professionals was not enough to maintain average earnings at their 1990 levels.



Approximately 750 of the Screen Actors Guild's 975 members had reportable freelance income in 1991. Although earnings averaged less than $8,000, SAG members often received other work in Equity and AFTRA productions in and outside the New England Area.

Other local craft unions reported member earnings that averaged $29,890 in 1990 and $32,382 in 1991.

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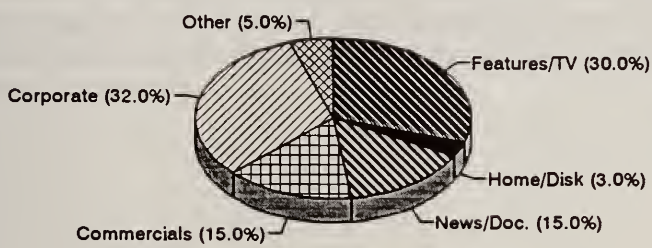
[4]The differing rates of decline in 1991 for total and average earnings reflect variation in the number of respondents reporting earnings for each year. In 1990, 63 freelance professionals reported earning $2.19 million while in 1991, 66 freelance professionals reported earning $1.94 million.

Sources of Freelance Income

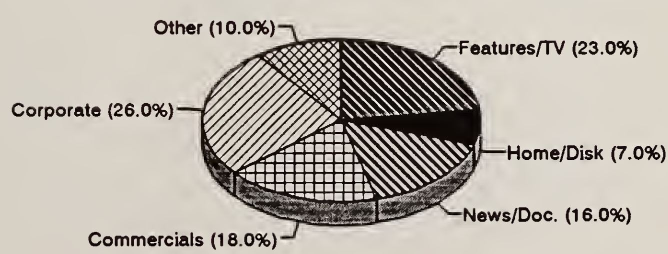
Freelance professionals earned wages from work in all of the production categories. The amount of work available in each category in a given year is largely a function of the number of location shoots by film and television producers and the relative activity levels of local producers and production companies in corporate and commercial video projects.

In 1990, for example, *Against the Law*, a Fox Network series, *Maverick Square*, a series pilot, and several TV movies combined to create a large number of freelance jobs in the Entertainment sector. The result was that nearly a third of reported freelance income (see below) came from this category. In 1991, however, this category made up only a quarter of freelance earnings.

1990 Freelance Earnings by Category



1991 Freelance Earnings by Category



The decline in corporate production in 1991 caused some freelance professionals to turn to heretofore insignificant work opportunities -- production for home video and videodisc, and domestic video. The latter category includes production work by video professionals covering subjects such as weddings, graduations and bar mitzvahs.

Freelance Experience

The average freelance professional in our survey had 8.7 years of experience, up from the 6 years reported in the previous survey. As encouraging as these figures may be to a producer seeking an experienced crew, they also suggest two overlapping trends -- that less experienced freelance professionals are leaving the Massachusetts production industry for more lucrative markets or careers, and they are not being replaced at the rate at which they depart.

The decline in work opportunities has been felt most strongly among the less-experienced freelance professionals. In effect, much of the available work has gone to the best-known, most skilled and most senior people, making it increasingly difficult for the less-experienced to support themselves. Many of the latter have temporarily, or in some cases, permanently, left the Massachusetts production job market, either by moving to another state or by pursuing another career.

The slow job market has similarly discouraged graduates of local broadcast programs from joining the freelance pool, and replenishing it from the bottom. In combination, these two trends have effected an unusual increase in average experience levels in the freelance community.

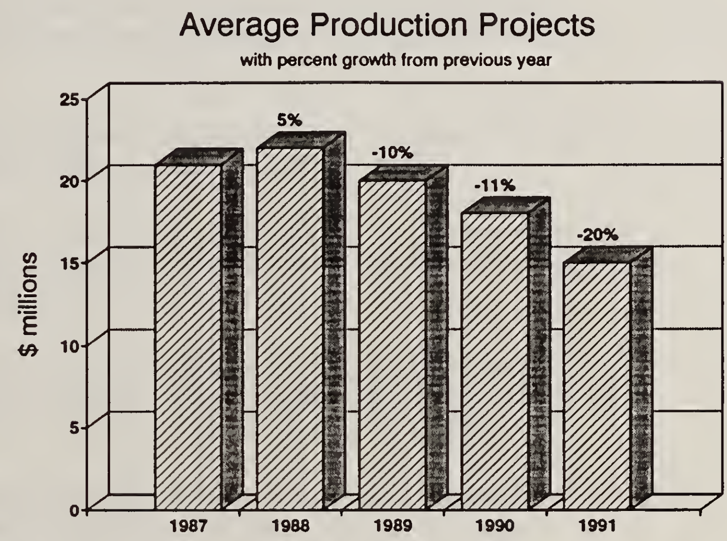
Projects and Production Days

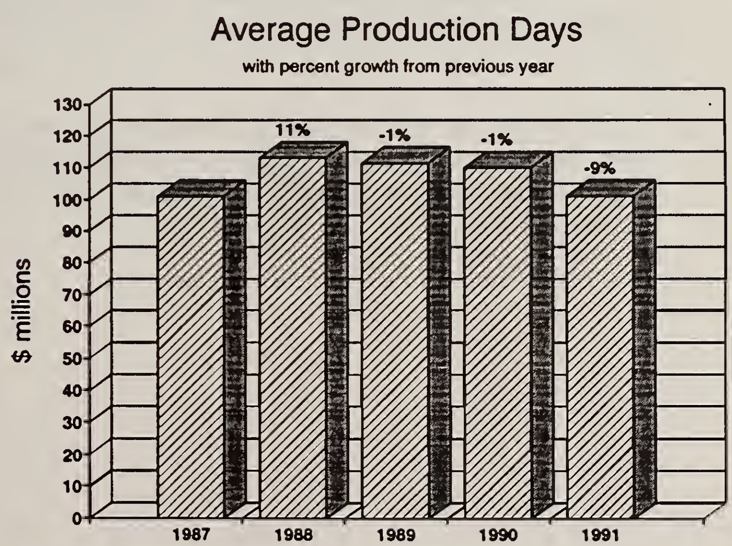
Another indicator of the state of freelance affairs can be found in the average number of production projects and production days worked. In 1988, freelance professionals worked an average 113 days on an average of 22 projects.

In 1990, this declined to an average of 103.7 days on an average of 17.6 projects, and in 1991, to an average of 94.6 days spent on an average of 14.6 projects. This represents an average decrease of about 8% in each of the two years, and is consistent with other measures of the slow production market.

Local unions report their members worked an average of 94 production days in 1990 and 107 days in 1991.

The increase in the average number of days per project, from 5.1 in 1988 to 6.5 in 1991 may be further evidence that fewer freelance professionals are taking up a larger share of freelance opportunities.





Conclusion

Despite an extremely trying economic environment, the Massachusetts film and video production industry is surviving and, in some respects, flourishing. While the industry as a whole has contracted by approximately 10% in the last two years, there has been an even greater reduction in the number of production companies, production departments and freelance production workers. The remaining companies, departments and workers are necessarily more efficient and competitive than they were in the mid-80s.

Aside from the need for a healthy business environment, the issues which face the industry are in large part similar to those of the late 1980s:

- The shortage of financing for productions originating in the state and for the expansion and updating of the capital-intensive post-production industry, a prerequisite for continued growth in the video sector.

- The increasing competition from other states and municipalities for feature film and television location production, exacerbated by the strenuous efforts of the major production studios to limit or reduce production budgets.

- The diminishing size of Massachusetts' pool of production professionals, as both experienced and novice technicians and artists migrate to larger production centers or different occupations in search of employment.

- The difficulty and expense Massachusetts producers and production organizations face in marketing their services to potential customers elsewhere in the country or the world.

If these concerns are addressed, and the regional economy returns to health, the preceding pages provide ample evidence that the industry has the commitment and know-how to quickly recover and re-establish its impressive growth pattern as the decade matures.